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Min. des Affaires étrangères

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November 1985

Overview

Canadian Access to Export Markets

Background

Since its election in 1984, the Canadian Government has consistently focussed on Canada's international trading relations, especially trade relations with the United States, as a primary element of the nation's economic renewal. This was reflected in the major policy document "A New Direction for Canada: An Agenda for Economic Renewal" issued by Finance Minister Michael Wilson in November 1984.

In order to channel discussion of this subject and to provide an effective basis for consultations within Canada on international trade, Minister for International Trade James F. Kelleher issued a Discussion Paper in January 1985 entitled "How to Secure and Enhance Canadian Access to Export Markets". Mr. Kelleher then undertook a cross-Canada consultative tour, visiting 15 cities and meeting with hundreds of interested Canadians. Concurrently, he held several meetings with his provincial government counterparts, as well as with spokesmen for major interest groups, including commercial and industrial trade associations and labour organizations.

The future of Canada-United States trade relationships was a major topic of the Green Paper "Competitiveness and Security: Directions for Canada's International Relations", issued in May 1985 by the Right Honourable Joe Clark, Secretary of State for External Affairs. Following Mr. Clark's tabling of the Green Paper in the House of Commons, the government and the parliamentary opposition agreed to the establishment of a Special Joint Committee of the House of Commons and the Senate to examine the wide range of guidelines bearing on Canada's international relations. The committee was requested to make a final report by May 31, 1986, but an interim report was



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requested for August 23, 1985, on Canada-United States trade (and also on the question of Canadian participation in the United States' Strategic Defence Initiative). On Canada-United States trade, the committee recommended that early preliminary discussions be held with the United States on ways to secure and enhance each country's access to the other's markets.

The impetus for holding discussions with the United States on a new Canada-US bilateral trade arrangement was furthered in September 1985 by the publication of the final report of the Royal Commission on the Economic Union and Development Prospects for Canada (MacDonald Commission) which recommended, *inter alia*, free trade between the two countries.

This complex evolutionary process culminated with the September 26 statement in the House of Commons by the Prime Minister, expressing Canada's interests in pursuing a new trade agreement with the United States.

In view of the priority attached by the government to Canada-United States trade, a synopsis is provided below of Mr. Kelleher's Discussion Paper "How to Secure and Enhance Canadian Access to Export Markets".

Introduction

In January, 1985, the Minister for International Trade, Mr. Kelleher, released a Discussion Paper under the above title. The reason was the overwhelming importance of international trade to the Canadian economy and the need to assess the most effective means to promote it. Exports now account for almost one-third of Canada's gross national product and over three million jobs. It is estimated that every additional \$1 billion exports means 16 000 more jobs in Canada. During the past decade, Canada's position among the world's trading nations fell from fourth to seventh, largely due to our declining competitiveness in the international marketplace.

The Discussion Paper provides a focus for consultations with the private sector and the provinces, and is intended primarily to elicit views on the principal market access problems facing Canadian exporters, and on matters relating to access to the Canadian market.

The Paper is divided into three sections. The first outlines the international setting for

market opportunities and the international environment that conditions Canada's search for improved access to markets. The second considers Canada's involvement in the next round of multilateral trade negotiations, which could begin during 1986. The third addresses possible bilateral approaches to Canada-US trade relationships, reflecting the special importance to Canada of the American market.

The Discussion Paper is designed to obtain views from the private sector in order to prepare for the next round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT). Canada remains committed to the GATT, but the government wishes to examine possible bilateral initiatives with the United States which could reinforce efforts being sought through multilateral trade negotiations. Four options are set out for Canada-US trade relations: (1) continue as in the past; (2) initiate negotiations towards either limited sectoral or functional arrangements; (3) initiate negotiations aimed at achieving a comprehensive bilateral arrangement that could lead eventually towards barrier-free trade; (4) establish a framework agreement that would set the stage for subsequent negotiations aimed at achieving a comprehensive bilateral agreement.

On issuing the Discussion Paper Mr. Kelleher emphasized that the choice for Canada is not between multilateral and bilateral approaches to trade, but how both avenues can be pursued in a mutually reinforcing manner.

Part I: Canada's Export Markets and the International Trading Environment

The United States has become by far Canada's most important export market, taking more than 75 per cent of our total exports, and involving nearly the whole range of Canadian production and all regions of the country. By comparison Japan, our second biggest customer, takes 5.2 per cent, Britain 2.6, the USSR 2.0 and China 1.8 per cent.

Protectionist pressures are rising in the United States. In view of the potential threats facing Canada in the US, the key question is whether our objectives can be met through bilateral arrangements and, if so, which approach is more likely to assure Canada's success.

Table 1
Share of Canada's Total Exports to Selected Markets

	1960	1984
United States	56.4%	75.6%
Europe	29.0%	9.5%
Asia (except Middle East)	5.5%	8.8%
Rest of the World	9.1%	6.1%

Japan, Canada's second largest market, offers considerable potential for Canadian exports, a number of which have reached appreciable levels as Japanese trade barriers have

Table 2
Share of Canada's Total Imports from Selected Markets

	1984
United States	71.5%
Europe	10.8%
Asia (except Middle East)	10.8%
Rest of the World	6.9%

been lowered. Nevertheless Canadian exporters should be aware that any negotiations to be undertaken in the future with Japanese importers may be protracted to an unusual degree.

Table 3
Canadian Exports as % of Canadian GNP

Year:	1960	1970	1975	1980	1984
%:	12.0%	18.9%	17.0%	20.0%	25.8%

The European Economic Community (EEC) has declined as a market for Canadian exports. In the early 1960's, the EEC took 25 per cent of Canada's exports, mainly agricultural and resource, but by 1983 this figure had dropped to 8 per cent. This was attributable to the EEC's slower growth rate by comparison with the US, and to greater trade within the EEC and with other countries of Europe. Nevertheless, Europe remains a major and potentially most lucrative market.

The Asia and Pacific Rim markets are predicted to have the world's fastest economic growth rate and have the prospect of becoming Canada's fastest growing export markets. To exploit them, Canadian competitiveness will have appreciably to improve, and aggressive trade promotion, more effective on-the-spot representation and competitive financing would have to be part of the effort. Canadians should bear in mind that our own import restrictions on automobiles, textiles and clothing are seen as protectionist by those trading partners whose exports to us are affected.

With its billion population, China's imports are increasing as it seeks to industrialize and achieve greater self-sufficiency. The visit of China's premier to Canada in 1984 included trips to several high-technology industries in Ontario and Quebec, and this may foreshadow some increase in our supplying modern technology, professional and technical services, communications systems, and oil exploration and extraction equipment.

While Canadian trade with Latin America has declined somewhat as a result of the area's international debt problems, Canadian exports to the region nevertheless total three billion dollars. Middle East markets have moved out of the "boom" phase and Canadian exporters, who may have been unable to participate in the area's mega-projects, may now find opportunities to supply technology services and new and semi-finished materials.

Part II: Preparations and Possible Agenda for a New Round of Multilateral Trade Negotiations

Canada has traditionally sought enhanced access to world markets through multilateral negotiations under the General Agreement on Tariffs

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and Trade, of which there have been seven rounds to date, and which have been a cornerstone of Canadian trade policy. There is an emerging international consensus for a new GATT round, the impetus for which arises from the need: (a) to head off protectionist pressures; (b) to further multilateral trade liberalization; (c) to clarify existing rules; (d) to cover new areas, such as trade in services; (e) to bring newly industrialized and developing countries into the multilateral framework with some reciprocity of benefit.

The government wishes to develop the Canadian approach to the next GATT round with full co-operation of the provinces and the private sector. The next round of negotiations could cover, *inter alia*, various aspects of the following elements: safeguards, trade in agricultural products, government procurement, trade in services, trade in resource-based products, textiles and clothing, tariffs and non-tariff measures, and strengthening and extending the multilateral system.

Part III: Canada-United States Trade Relations

Because of its extraordinary predominance in our total trade, the Canada-US relationship requires special attention; it is improbable that

the long-term trend toward greater involvement with the United States in trade, investment and access to technology will be reversed.

The main problem for Canadian access to the US market is the increased threat of protectionist measures (not all of which are specifically directed at Canada). Our exports of lumber, steel, copper, fish, urban transit equipment, cement and certain agricultural products have experienced the threat of US restrictions, and protectionist sentiment is unlikely to diminish in the foreseeable future. In addition, some Canadian exports are affected by measures of general application designed to give preferences to US producers, e.g. "Buy America" legislation. At the same time Canada is by far the United States' most important export market, accounting for 19 per cent of the US total; US exports to its second customer, Japan, are just over half of the total purchased by Canada.

The direction of future Canada-US trade arrangements and determination of the best choice for Canada among available options depend, ultimately, on our assessment of the importance of barriers to Canadian trade identified in negotiations with the US, the advantages and risks of each option, the negotiability of defined objectives and the political will of both countries to undertake such negotiations. Two

Table 4
1984 Major Canadian Exports to the United States

Rank	Items	Value in \$000,000	% exports sold to US
1.	Automotive Products	\$28,748	97.8%
2.	Forest Products	11,239	74.2%
3.	Petroleum & Natural Gas	8,261	99.8%
4.	Fabricated Metal Products	7,607	80.5%
5.	Chemicals & Chemical Products	3,481	65.7%
6.	Agriculture & Food	3,444	31.8%
7.	Telecommunications & Office Equipment	2,687	72.1%
8.	Industrial Machinery	2,118	74.5%
	All Other Items	15,182	53.3%
	Total	82,796	75.6%

Table 5
Exports by Province — 1984 (January-September)

Province	Domestic Exports as % of GDP	Exports to the US as % of total exports	Principal Exports to the US
Newfoundland	12.4	53.4	fish (72%)
Prince Edward Island	8.5	61.3	fish (43%) vegetables (30%)
Nova Scotia	12.6	59.5	fish (34%) transportation (29%) wood and paper (25%)
New Brunswick	24.3	62.5	wood and paper (40%) energy (37%)
Quebec	17.8	62.7	wood and paper (40%) energy (37%)
Ontario	26.7	90.3	transportation (59%)
Manitoba	7.7	82.5	transportation (16%) energy (14%) wood and paper (11%)
Saskatchewan	11.5	95.0	energy (57%) chemicals (26%)
Alberta	14.4	87.8	energy (81%)
British Columbia	26.7	36.1	wood and paper (58%) energy (15%)

Source: Statistics Canada, 65-003

caveats must be emphasized: there is no risk-free option, including the status quo, and no amount of analysis or consultation will provide guaranteed assurances in advance.

The government, accordingly, seeks information, views and perceptions from the private sector generally and from individual firms on:

- which approach for Canada-US trade relations would most efficaciously deal with the main barriers to market access in the United States;
- the impact of alternative approaches on firms and sectors in terms of production, exports and employment if such market access barriers were reduced or eliminated;
- the impact on firms and sectors in terms of production, exports and employment if Canadian barriers to US exports were reduced or eliminated;
- the implications for investment and technology in particular sectors in any arrangement for reduction and elimination of trade barriers;
- the major benefits and adjustment costs on specific sectors and regions arising from various options;
- the implications for Canadian trade objectives in other markets if new trade arrangements were concluded with the United States.

Some Canadians may contend that a formal trade arrangement with the United States will diminish our political and cultural sovereignty and narrow our manoeuvring room economically. Others may contend that the interdependence of the two economies is already so advanced that the absence of formal bilateral arrangements impedes development of a more competitive economy and erodes our capacity to pursue Canadian development and to exercise influence internationally. The Prime Minister gave assurance in his September 26 statement that Canada's political sovereignty, system of social programs, commitment to fight regional disparities, and unique cultural identity and special linguistic character will not be at issue in negotiations with the United States.

Although the September 26 statement by the Prime Minister took this important question a major step forward, the process of negotiating a new Canada-United States trade arrangement will doubtless be a protracted one. Accordingly Canadians will have ample opportunity to express their views further on this most important topic.

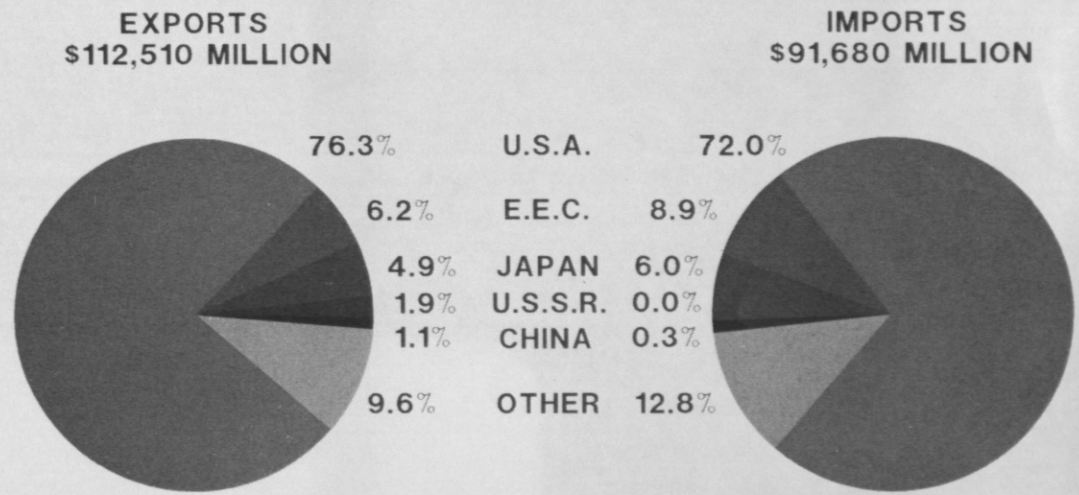
Written comments on the Discussion Paper should be addressed to:

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 Minister for International Trade
 Lester B. Pearson Bldg.
 125 Sussex Drive
 Ottawa, Ontario
 K1A 0G2

Table 6
1984 Major Canadian Imports from the United States

Rank	Items	Value in \$000,000	% of imports of US origin
1.	Automotive Products	\$22,939	86.7%
2.	Chemicals	4,071	78.1%
3.	Computers	3,752	91.4%
4.	Agriculture & Food	3,178	53.8%
5.	Industrial Machinery	2,878	71.9%
	Total	68,450	71.5%

Table 7
Canada's Merchandise Exports and Imports by Country
Groupings, 1984
Balance of Payments Basis



Source: Statistics Canada, Summary of external trade, January, 1985.

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